

G-008/M-93-868; G-008/M-93-866; G-008/GR-93-1090 ORDER APPROVING DEMAND  
CHANGES AND REFERRING COST RECOVERY ISSUES TO GENERAL RATE CASE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm  
Tom Burton  
Marshall Johnson  
Cynthia A. Kitlinski  
Dee Knaak

Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of Minnegasco's Petition for  
Approval of Changes in Transportation,  
Supply, and Firm Deferred Delivery  
Entitlements for System Acquired from  
Midwest Gas

ISSUE DATE: May 2, 1994

DOCKET NO. G-008/M-93-868

In the Matter of Minnegasco's Petition for  
Approval of Changes in Demand Entitlements  
due to Acceptance of South Dakota Entitlement  
Volumes Under Property Exchange Agreement  
with Midwest Gas

Docket NO. G-008/M-93-866

In the Matter of the Application of  
Minnegasco, a Division of Arkla, Inc., for  
Authority to Increase its Rates for Natural Gas  
Service in Minnesota

Docket NO. G-008/GR-93-1090

ORDER APPROVING DEMAND CHANGES  
AND REFERRING COST RECOVERY  
ISSUES TO GENERAL RATE CASE

**PROCEDURAL HISTORY**

**I. The Filings at Issue**

On August 31, 1993 Minnegasco (the Company) filed two petitions for approval of demand changes under Minn. Rules, part 7825.2910. The rule requires gas utilities to seek Commission approval to increase or decrease demand, to redistribute demand among customer classes, or to exchange one form of demand for another. The rule triggers Commission review of significant gas purchasing decisions to ensure that gas utilities maintain adequate, reliable supplies and that they obtain those supplies at the best possible prices.

On January 5 and January 13, 1994 the Department of Public Service (the Department) filed comments recommending approval of the demand changes proposed in both petitions, stating they were necessary to ensure reliable and adequate supply. At the same time, the Department recommended disallowing rate recovery of specified portions of the costs of the demand changes. The Department sought disallowance of the amounts by which costs of new demand entitlements exceeded the costs of the demand entitlements they replaced.

On January 18 and 24, 1994 the Company filed comments on the Department's recommendations in the 866 and 868 dockets respectively. The Company argued it had negotiated the demand changes in each of these two dockets as a package, that each docket should be evaluated as a package, and that both petitions should be approved as resulting in net ratepayer benefits. In the alternative, the Company argued the cost recovery issue should be deferred to its pending general rate case.

On February 22, 1994 the Department filed reply comments in the 866 docket, and on March 22, 1994, in the 868 docket. On April 7, 1994 the Company filed supplementary

comments in the 868 docket.

Both dockets came before the Commission on April 14, 1994.

## **FINDINGS AND CONCLUSIONS**

### **II. The Property Exchange to which the Filings Relate**

Both the 866 and the 868 dockets involve demand changes resulting from a September 1993 exchange of property, assets, and customers between the Company and another utility, Midwest Gas. Under the terms of the exchange agreement, Minnegasco exchanged its South Dakota customers and property, plus \$38 million, for Midwest Gas's Minnesota customers and property. The Commission approved the exchange agreement on July 29, 1993.<sup>1</sup>

In the Order approving the exchange agreement, the Commission deferred to the Company's next rate case a determination on whether the Company should be allowed to recover an acquisition adjustment, the difference between what it paid for the properties it acquired and their book value. A central issue in that determination would be the extent to which the exchange resulted in gas cost savings, which accounted for 70% of the ratepayer benefits claimed by the Company.

On December 9, 1993 the Commission accepted the general rate case listed above and referred it to the Office of Administrative Hearings for contested case proceedings. Those proceedings are underway. As anticipated, one of the major issues is the Company's claim for an acquisition adjustment from the Midwest property exchange, based in large part on claimed gas cost savings.

### **III. Commission Action**

The Commission agrees with the Department that the demand changes proposed by the Company are necessary to maintain adequate, reliable supply and should be approved.

The issue of cost recovery is more difficult. Both dockets involve combinations of gas sales and transportation contracts negotiated as a package to meet needs resulting from the property exchange with Midwest. Some contracts within each package are more advantageous to ratepayers than pre-exchange contracts; others are less advantageous.

The Department recommends allowing cost recovery for the advantageous contracts and disallowing cost recovery for specified portions of the disadvantageous contracts. The Company contends fairness requires considering each of these two sets of contracts as a package, or even as part of the Midwest property exchange, whose cost and benefits are under review in the general rate case.

The Commission believes the rate case presents the best vehicle for exploring and resolving the cost recovery issues in these two dockets. The contracts at issue are inextricably bound up with the Midwest property exchange. They are products of that exchange. Meaningful review of their reasonableness requires an understanding of the Company's position before and after the exchange, the costs and benefits of the exchange, and the Company's level of performance in the post-exchange environment.

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<sup>1</sup> In the Matter of the Joint Petition of Minnegasco, a Division of Arkla, Inc., and Midwest Gas, a Division of Midwest Power Systems, Inc., for Authority to Exchange Assets, Utility Operations and Business, Docket No. G-008,010/PA-93-92, ORDER APPROVING EXCHANGE AND REQUIRING FILINGS (July 29, 1993).

These issues are being developed in the rate case, where the Company is attempting to justify recovery of an acquisition adjustment by showing that the benefits of the exchange exceed its costs. In the interests of administrative efficiency, these contracts should be considered in the rate case as well.

The Commission will so order.

**ORDER**

1. The demand changes set forth in the above-entitled petitions are approved.
2. The cost recoverability of the demand changes set forth in the above-entitled petitions will be considered in the Company's ongoing general rate case.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

(S E A L)